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Economist: 2002 Budget focus may need to be changed

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THE Government may need to change the tone of the 2002 Budget and the focus of its fiscal strategy and direction to sustain Malaysia's economic resilience, said an economist.

The Budget is expected to be tabled by Prime Minister Datuk Seri Dr Mahathir Mohamad in his capacity as the Finance Minister at the Parliament next month.

"There is now a pressing need to focus on the domestic demand to help cushion the blow and potential losses by exporters," said Suhaimi Ilias from the Affin-UOB Securities Sdn Bhd.

He was commenting on the increased risks of a global recession following the attacks on the World Trade Center in New York and the Pentagon near Washington on Tuesday which led to the closure of the US financial markets yesterday.

The main Treasury building, next door to the White House and a symbol of American economic power, was also closed.

Businesses and consumer confidence have been shaken following the incident.

"The Government should be looking at a more pro-growth confidence boosting Budget to increase domestic demand," he said, suggesting a re-look at the corporate tax structure as well as other allowances.

There have been repeated calls to reduce the corporate tax of 28 per cent.

Suhaimi said the "stop-gap" measure was necessary as risks of a global recession had escalated.

"We have to brace ourselves for negative growth based on exports. The implications do not look good (including the psychological effects)," he said, adding that the risks also depended on the United States and its immediate action to tackle its already slowing economy.

The scope for major fiscal and monetary Budget measures has been limited by the shrinking revenues and foreign exchange earnings due to the slowdown in the United States and Japan.

He also said the hopes of seeing an improvement in the fourth quarter of the year had been pushed back further.

The country's second quarter real growth was a slower 0.5 per cent.

Malaysia had posted a revised 3.1 per cent gross domestic product growth in the first three months of the year, down from 6.3 per cent in the previous quarter.

Growth in the third quarter was expected to be about the same as the second quarter, and a stronger recovery is likely to be seen only in the final three months of the year.

Besides the Kuala Lumpur Stock Exchange, the Malaysia Derivatives Exchange and Malaysian Exchange of Securities Dealing & Automated Quotation were closed yesterday.

Both will reopen today.

Public accounting and consulting firm KPMG Consulting Sdn Bhd managing director Dr Y.K. Chin also felt that the fiscal Budget would need to address interest rates to tackle inflationary pressures.

Lowering the interest rates would help stimulate consumer spending.

He said the export sector should continue to be emphasised in the Budget.

The Prime Minister had asked Malaysians to look at non-traditional

markets like Latin America and African countries, China and India.

Chin said although there had been a lot of uncertainties since the attacks particularly in consumer confidence, there would be pockets of recovery.

Chin said the repercussions of the attacks might cause inflationary pressures on the oil industry and the telecommunications industry.

Institute of Strategic International Studies deputy director Datuk Dr Zainal Aznam Yusof said there was no reason for Malaysians to be alarmed over the attacks in the United States since the country had taken measures to ensure the economic wheels kept moving.

He said the country's fundamentals were still good as Malaysia had taken steps to restructure corporate debt and reform the banking sector.

He said the attack could not have come at a worse time for the US economy.

The attacks came at a time when the United States was expecting a slow recovery, and the aftermath has made it more vulnerable.

Zainal said the immediate impact was the increase of oil prices which might benefit oil-exporting nations like Malaysia.

He also predicted that a weakening of the dollar would cause the ringgit to depreciate, making Malaysian exports more competitive, although this had to be seen in relation to a host of other factors.

He added that the closure of US airports and the suspension of flights would cause problems to exporters dependent on airfreight services.

Zainal expects the KLSE index to see a downward trend based on the performance of other bourses around the world.

Although the index was picking up previously, it would probably see a six to eight per cent decline, he said.

While the impact on Asean economies is expected to be minimal, foreign research analysts and economists in major Asian capitals reacted in shock yesterday over the loss of friends, colleagues and clients.

An analyst with a foreign broking house said:

"There is less impact on Asean economies than on the rest of the world although the tragedy will accelerate the global recession.

"The incident is likely to galvanise the US Federal Reserve Bank to cut interest rates sooner. On that basis, Southeast Asia is less affected.

"What is driving the Malaysian stock market is its internal restructuring under Dr Mahathir, which is what investors are looking at for the moment."